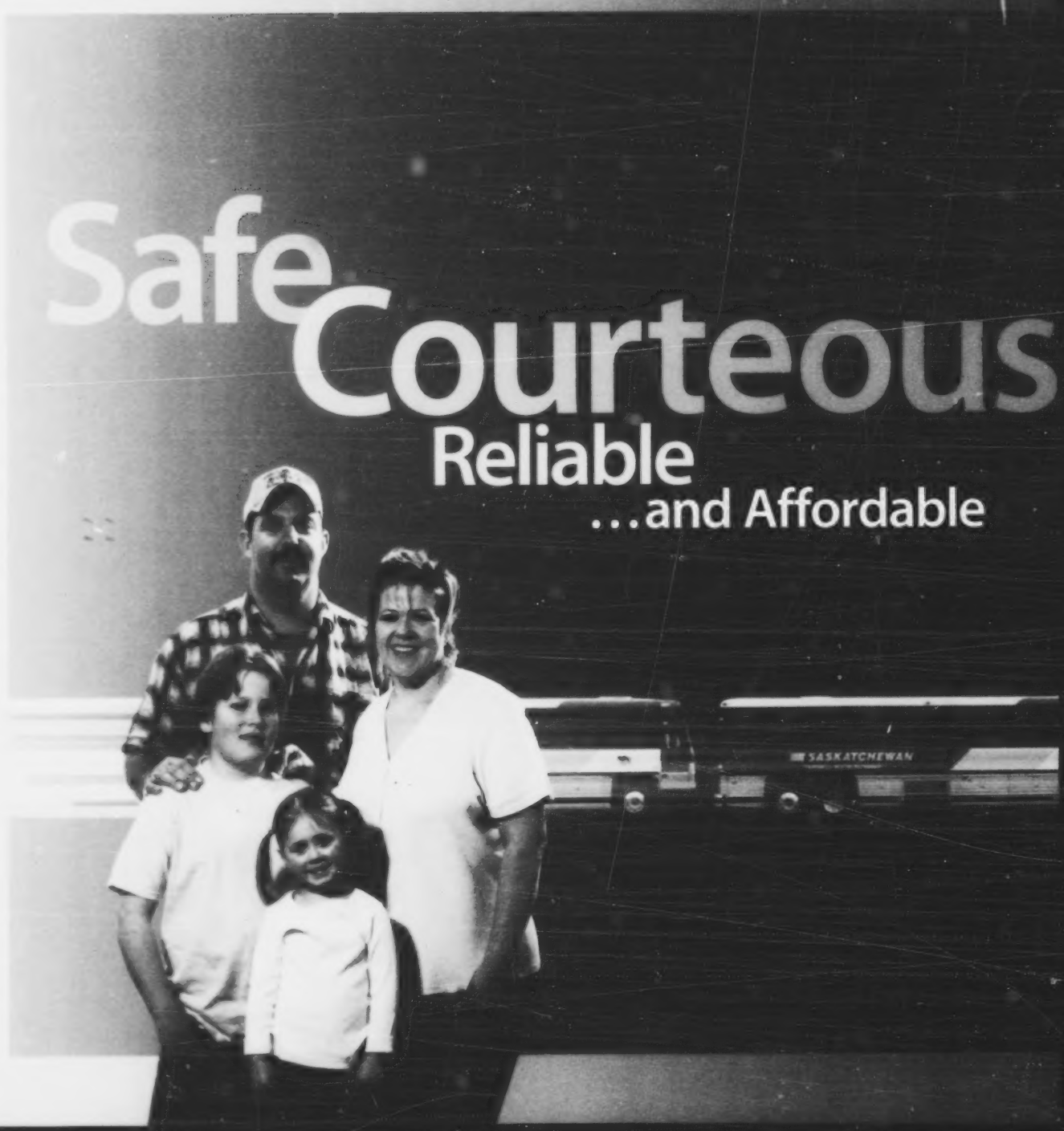
STC
The Bus Company

Annual Report 2003



Corporate Mandate

The Saskatchewan Transportation Company is a Crown Corporation of the province of Saskatchewan. It was established by Government Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of The Crown Corporations Act, 1993.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

Safe
Courteous
Reliable
...and Affordable

STC

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Letter of Transmittal

Regina, Saskatchewan
March 31, 2004

To Her Honour
The Honourable Dr. L. M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madame:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2003, in accordance with The Crown Corporations Act, 1993. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madame,

Your obedient servant,

Maynard Sonntag

Minister Responsible for the Saskatchewan Transportation Company

Report of the Chair of the Board

Janet Folk, Chair of the Board

As the Saskatchewan Transportation Company starts to close in on its 60th year of service to the people of Saskatchewan, the company has stayed true to the three words which have been its slogan for most of that time—Safe, Reliable, Courteous.

To that list, we add a fourth definition of STC, Affordable. By affordable, we do not mean just the tariff we charge our customers, although we are certainly affordable in that regard. We mean affordable for all of Saskatchewan.

For the better part of a decade, STC has ensured that the fares it offers to its passengers are below the average fare of bus companies operating in Western Canada. This became even more relevant in the fall of 2003, when the Premier announced that it was the Government's intention that the cost for services supplied by Saskatchewan's Crown corporations would be as low as, or lower than, the alternatives in Canada.

Although STC was not specifically included in the Premier's "bundle of services" (electrical, basic telephone, natural gas heating and auto insurance), STC nonetheless took the message to heart. In our 2004 Balanced Scorecard of corporate performance, we have included a measure to ensure that our fares continue to be below the Western Canadian average.

STC's express business is a little less flexible in terms of rates, as it is in competition with the myriad of trucking and courier services in the province, and it has to keep its rates competitive with the industry. Nonetheless, our rates do appeal to our clients, which is evident in the fact the service made a profit in 2003 of $2,370,000.

The service provided to the province is also affordable to government, who are the representatives of the company's shareholders, the people of Saskatchewan. For the year 2003, STC's operating subsidy was $1.6 million, the lowest it has been in years. For that money, the people of Saskatchewan enjoyed a bus service which ran 3.2 million miles during the year, providing service to 275 communities.

We are affordable to the businesses and people of the province. In 2003, we carried 258,841 passengers, and sixty-nine per cent of customers who were surveyed told us our fares were a good bargain.

We also transported 1,275,000 pieces of freight, and our express operations had revenues of $6,577,000 for the year. As most of our freight is being shipped to or from businesses in rural Saskatchewan, we are obviously providing these businesses with an affordable, necessary service.

In the area of charter services, where we do not actively compete with other service providers, we still saw a customer base which feels our service is very affordable. This is evidenced by the fact that our charter revenues for 2003 rose to $274,000 from $201,000 the previous year.

So the year 2003 did demonstrate that STC's service is affordable. But what is really important is this was not done at the expense of any of the other three foundation blocks of our service—safety, courtesy, and reliability.

STC has an enviable record for safety on our highways, and that record was in no way diminished in 2003. Over the year, the company gave safe driving awards to 49 drivers, representing an aggregate of 587 years safe driving without an at-fault accident. In addition, three drivers joined STC's million-mile club for a million accident-free miles.

In terms of courtesy and reliability, our drivers' performance in these areas met with the approval of 91 percent of our passengers, according to customer satisfaction surveys. Overall, the company as a whole had a satisfaction rating of 83 per cent amongst our customers.

For the past few years, the overall strategic direction of STC's Board of Directors to corporate management has focused on ensuring the company does what it is known for—providing the people of Saskatchewan with the best possible intercity bus service, while being ever-mindful of the costs.

The results we are seeing for 2003 indicate that management has done its job, and the strategy has paid off.

This is not to say there were no challenges faced by the company in 2003. There were, and there will be more in 2004. But, by concentrating on what it does best, the company was able to provide the people of this province with the bus service they expect and deserve.

At the end of the day, that is the primary mission for all of us at STC.

Janet Folk

Janet Folk,

Chair of the Board

Board of Directors

Governance, Compliance and Accountability

The Board of Directors of the Saskatchewan Transportation Company believes the company, as a Crown corporation of the Government of Saskatchewan, owes a duty to taxpayers to demonstrate that STC is open, accountable and properly managed.

To that end, this Annual Report follows "best practices" as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out, along with a comparison of the Board's actions to those required by private companies listed on the TSX.

Board of Directors

Janet Folk, Chair, Regina, Pensions and Benefits Manager, City of Regina, **unrelated**

Feyhan Al-Katib, Vice-Chair, Saskatoon, retired, **unrelated**

Cecile DeBray, Member, Duck Lake, Manager, Saskatchewan Housing Authority, **unrelated**

Jim Hadfield, Member, Regina, President and CEO of STC, **related****

Holly Ann Knott, QC, Member, Saskatoon, Lawyer, **unrelated**

Larry Schultz, Member, Fort Qu'Appelle, Business Owner, **related***

Wally Sotski, Member, Yorkton, Business President, unrelated

Wayne Timoffee, Member, Prince Albert, Supervisor, Weyerhauser Canada, **unrelated**

Leo Weaver, Member, Regina, Motor Coach Operator, STC, ATU representative, **related**

* In the case of Mr. Schultz, one of his business operations serves as a local agent for STC. Although it is only a small portion of his business, he is a related director.

** A Cabinet Order in December of 2003 removed CEOs from the Boards of Saskatchewan's Crown corporations and, as a result, Mr. Hadfield was not a Board Member by the end of the year.

Seated, left to right:
Leo Weaver, Wayne Timoffee, Wally Sotski

Standing, left to right:
Larry Schultz, Dawn Stanger-Corporate Secretary, Jim Hadfield-President and CEO, Janet Folk-Chair, Holly Ann Knott, Cecile DeBray

Missing: Feyhan Al-Katib

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the Corporation. The Board has a statutory authority and obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, Corporate plans and management performance.

2. In discharging its obligations, the Board's principal duties are:

a) to provide leadership in setting the Corporation's long range strategic direction, and to approve the Corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;

b) to participate with management in identifying the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and potential returns to oversee the implementation of appropriate systems to manage the risks;

c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;

d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public;

e) to ensure the integrity of the Corporation's internal control and management information systems; and

f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective Corporate compliance program has been established, and that Corporate documents and records are properly prepared, approved and maintained.

Audit and Finance Committee

1. Composition

The committee is made up of four Directors of the corporation, with Feyhan Al-Katib as Chair. The other members are Janet Folk, Holly Ann Knott and Wally Sotski. CEO Jim Hadfield is an ex-officio member. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee is advisory to the Board and in such capacity will:

a) oversee the financial management of STC to ensure the integrity of internal financial processes;

b) provide relevant and timely financial information to the Board; and

c) oversee the appointment of the external auditor and ensure proper follow up of audit results.

Planning, Priorities and Governance Committee

1. Composition

The committee is made up of four Directors of the corporation, with Wayne Timoffee as Chair. The other members are Cecile DeBray, Leo Weaver and Larry Schultz. Chair Janet Folk and CEO Jim Hadfield are ex-officio members. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee will be advisory to the Board and in such capacity will:

a) be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the Corporation;

b) oversee the Corporation's human resource strategies, programs and practices; and

c) ensure the Corporation is proactive in addressing safety, health and environment issues and is in compliance with all statutory requirements.

Selection Committee

(Early in 2003, the Board voted to disband the Selection Committee and spread its duties to either the Planning, Priorities and Governance Committee or to the full Board. One of its duties, the annual performance evaluation of the CEO, was given to an ad-hoc committee composed of the Board Chair and the Chairs of the two committees.)

TSX Corporate Governance Guidelines	Board Responsibility & Action	2003 Compliance
Part 1: The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	Note: all Board Items referred to are on file at STC's corporate head office, 2041 Hamilton Street, Regina, Sask. S4P 2E2	
1. Adoption of a strategic planning process.	Reviewed by PP&G, adopted by Board	03-28, and 03-59
2. Identification of the principal risks of the Corporation's business and ensuring the implementation of an appropriate system to manage these risks.	Reviewed by PP&G, adopted by Board	03-33 and 03-59
3. Succession Planning, including appointing, training and monitoring senior management.	Reviewed by PP&G, adopted by Board	in place
4. A communications policy for the Corporation.	Reviewed by PP&G, adopted by Board	03-59
5. The integrity of the Corporation's internal control and management information systems.	Reviewed by A&F, adopted by Board	03-32
Part 2: The Board of Directors of every Corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e.: one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors' ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding).	Six of nine are unrelated directors (see Terms of Reference)	03-72, 03-75, 03-69
Part 3: Disclosure of significant shareholders (ability to exercise a majority of votes to elect Directors).	N/A; Crown corporation without private shareholding	
Part 4: The Board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the Director is related or unrelated.	See Board listing, terms of reference	03-72, 03-75, 03-69
Part 5: The Board of Directors of every Corporation should appoint a committee of Directors composed exclusively of outside Directors (non management) the majority of whom are unrelated Directors, with responsibility to propose to the full Board new nominees to the Board and for assessing Directors on an ongoing basis.	Ad-Hoc Committee all outside, non-related Directors	03-69
Part 6: Every Board of Directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors.	Reviewed by PP&G, adopted by Board	03-42; 03-43
Part 7: Every Corporation, as an integral element of the process for appointing new Directors, should provide an orientation and education program for new recruits to the Board.	Board training provided by CIC; corporate orientation provided by Management	
Part 8: Every Board of Directors should examine its size and, with the view to determining the impact of the number on effectiveness, undertake where appropriate, a program to reduce the number of Directors to a number which facilitates more effective decision-making.	Responsibility of PP & G Committee	
Part 9: The Board of Directors should review the adequacy and form of the compensation of Directors to ensure the compensation realistically reflects to responsibilities and risk involved in being an effective Director.	Compensation rates set by CIC	
Part 10:		
1. A committee should generally be composed of non-management Directors.	Only one management member of Board, who is ex-officio to two committees	
2. The majority of committee members should be unrelated.	A&F Committees has no related directors; two of four on PP&G committee are related directors.	
Part 11: Every Board of Directors should expressly assume responsibility for, or assign to a committee of Directors, the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these guidelines.	PP&G reviews, Board approves	03-72

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TSX Corporate Governance Guidelines	Board Responsibility & Action	2003 Compliance
Part 12:		
1. The Board of Directors, along with the CEO, should develop position descriptions for the Board and for the CEO involving the definition of the limits to management responsibilities.	*Board approves*	*03-40; 03-41; 03-43*
2. The Board should provide or develop the Corporation's objectives which the CEO is responsible for meeting.	*PP&G committee reviews; Board approves*	*03-57*
Part 13: Every Board of Directors should have in place appropriate structures and procedures to ensure that the Board can function independently from management.	*Board Terms of Reference*	*03-69*
Part 14: The audit committee of every Board should be composed of only outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communications channels with the external and internal auditors to discuss and review specific issues, as appropriate . The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal controls.	*No inside or related directors on A&F; Terms of Reference sets out duties*	*03-69; 03-72; 03-75*
Part 15: The Board of Directors should implement a system which enables the individual Director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of the appropriate committee of the Board.	*Board Terms of Reference*	*03-69*

STC provides transportation services to 275 Saskatchewan communities

Patti Fry, Manager Financial Services, Regina, 28 years of service

2003 Corporate Profile

- **Established 1946 by Order-In Council; has operated continuously**
- **Serves 275 communities in Saskatchewan**
- **Operates 28 bus routes, travelling more than 3.2 million miles per year**
- **Has a fleet of 43 coaches and vans, varying in size from 55-seater to 15-seater, as well as a freight truck and freight trailers**
- **Has 205 agents operating in rural Saskatchewan**
- **Operates passenger and express depots in Regina, Saskatoon and Prince Albert**
- **Operates service garages in Regina and Saskatoon**
- **Maintains its Head Office in Regina**
- **Employs 235 people (188 full-time, 39 part-time and eight temporary); 209 employees are in-scope, 26 employees out-of-scope. In-scope employees are represented by the Amalgamated Transit Union, Local 1374**
- **Has an annual payroll of $9.0 million**
- **Has assets of $18.3 million (2002—$19.3 million)**
- **Total expenditures in 2003 $18.2 million (2002—$17.5 million); Revenues in 2003 $13.6 million (2002—$13.4 million)**
- **Capital expenditures $2.3 million (2002—$1.8 million)**

Passenger Services:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the Motor Coach Operators, Passenger Service Attendants and Custodians. The rural agencies provide services to this unit as well. It is STC's largest employee complement.

Express Services:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It delivers and receives freight to and from customers. Pick Up and Delivery services are available in Regina, Saskatoon and Prince Albert as well as some rural agencies.

Maintenance:

The primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles. This is done in service garages in Saskatoon and Regina. It is responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and reclaims (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software. It ensures the reliability and integrity of data, electronic communications, software applications and web services to provide staff, customers and partners throughout the province with current, up-to-date computer systems and information.

Human Resources:

This unit handles all staff recruitment and placement, co-ordinates training, and administers compensation and benefit programs. It negotiates the Collective Bargaining Agreement and administers contract compliance between the company and the union. It is responsible for Occupational Health and Safety, anti-harassment programs, employment equity programs, accessibility programs, return to work programs and employee assistance programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report and Strategic Business Plan. It liaises with other Crowns and government agencies. It is responsible for forward planning and issues management for the company.

Safe Reliable

Courteous ... and Affordable

Report of the President

Jim Hadfield, President and CEO

Almost from the time it was formed in 1946, the Saskatchewan Transportation Company has used the slogan "Safe, Courteous, Reliable". We at STC think it's time to add the word "Affordable".

STC is not a Crown corporation whose primary goal is that of making a large profit. Rather it is a corporation founded upon a commitment of service to Saskatchewan people.

That being said, however, the value of the company to its shareholders, the people of Saskatchewan, is enhanced when the finances of the company are kept in the best possible shape.

This puts STC on somewhat of a tightrope. On the one hand, we have to do the best we can to provide the public the level of intercity bus service that they have every right to expect. On the other, because we do receive an annual operating grant from our holding company, the Crown Investments Corporation of Saskatchewan, we have a duty to ensure that the grant we receive is enough to cover our service commitments, but not so large as to make people question whether they are getting value for money invested.

For STC to be affordable, as we state, it must not only be affordable for our customers, but also for our shareholders, the people of Saskatchewan. Both of these commitments must be met while maintaining the highest possible level of service.

We at STC are proud of the fact that we have provided a service, for almost 60 years which is, indeed, safe, courteous and reliable. The people of Saskatchewan have come to expect no less from us.

We provide service to 275 communities in the province, and, through our interline partnerships with other bus companies, reach almost 400 Saskatchewan communities, as well as all of North America. In 2003, we carried 258,841 passengers and 1,275,000 parcels for our customers.

We met our commitments to the shareholders' representatives, the Government of Saskatchewan, as well as our commitments to our customers. We did this during a time of economic slowdown in rural Saskatchewan, which is a significant customer base for the company. We did it in the face of some unexpected challenges. And we did it affordably.

Because STC has managed its money in a very prudent fashion in the past few years, we were able to operate in 2003 with an operating grant from CIC of just $1.6 million, as compared to $2.4 million the previous year. This is the lowest operating grant STC has received since it started getting grants from CIC in 1998.

Originally, STC had intended to request $2.2 million to cover its expected cash losses for 2003. However, due to efficient management of operating grant funding from previous years, STC was able to lower its grant request to the $1.6 million it received.

There are three challenges, specifically, on which I would like to briefly comment. Of the three, two had some financial impact on STC during 2003, but the major financial impact for all three is expected to begin in 2004.

The first concerns the parcel pick up and delivery service offered by STC. This service has been offered for about a decade, and has always been provided through independent contractors. However, in 2002, Canada Customs and Revenue Agency unilaterally ruled that the work these contractors do is not independent, and insisted that the company classify them as employees. This made STC liable for back payments for Employment Insurance and Canada Pension Plan contributions for these contractors.

An accessibility audit of our Regina facilities carried out on behalf of the Canadian Human Rights Commission in 2002 pointed out a number of shortcomings which will have to be brought up to standard to satisfy the Human Rights Code.

When this was combined with rising insurance costs because of the age of the Regina facilities, plus some site-specific problems regarding fire safety, the decision made by the company and its Board is that a major renovation or reconstruction of the facilities is in order.

A significant amount of staff time in 2003 was spent exploring the options of repairing or replacing, as well as investigating various sites in the city. In addition to staff time, the cost of the work done by third parties in 2003 amounted to some $62,000.

STC will be going forward with specific recommendations in 2004 to its Board, the CIC Board of Directors and the Provincial Cabinet on a plan to deal with this issue.

The third challenge I would like to address is not specific to STC. Rather, it is a problem for the bus industry as a whole in North America. The simple fact is that bus ridership has been on a steady decline for the past 20 years or more.

The reasons for this are varied—more access to private automobiles; changing demographics; rural depopulation—the result is the same for all bus companies, declining passenger loads and declining revenues.

In every business, one of the most common ways to prevent an erosion of your customer base is to create a better awareness of your product. STC, in an effort to keep costs down, has done virtually no advertising for the past five years.

STC believes that in order to prevent, as much as possible, the erosion of its customer base, it needs to embark on an awareness campaign so that our current and potential customers know just what we have to offer.

Starting in 2004, we will be budgeting $300,000 a year for three years for such a campaign.

Overall, our revenues for 2003 increased slightly from the previous year, $13,580,000 compared to $13,423,000, while our expenditures increased to $18,158,000 from $17,462,000. Our loss for the year was $4,578,000, up from $4,039,000 the previous year.

STC continues to be caught in a cost squeeze, where inflationary pressures are forcing our costs up at a faster rate than our revenues are rising. We control costs and enhance revenues wherever possible to mitigate this situation.

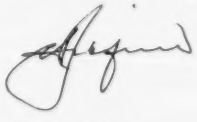
Unlike the past two years, STC did not reduce the miles it operates in an attempt to contain costs. In fact, it added service to one community on a six-month trial basis, to determine if there was sufficient demand to maintain the service. Unfortunately, there was not.

STC continues to see increases in revenues from its charter services. Our 2003 revenues in this area rose to $274,000 from about $201,000 the previous year. It is likely that our revenues could have been higher, but STC does not actively compete against the private sector for charter business. We do not advertise for it, nor do we purchase extra equipment or additional staff to handle the business. We only take a charter contract if we can commit to it using existing resources.

STC did not increase passenger fares in 2003.

A significant increase in revenues was noted in our non-traditional business lines when the restaurant space in the Regina and Saskatoon depots was leased to Robin's Donuts.

We at STC are proud of what we were able to do in 2003, and are looking forward to what we will accomplish in 2004. Our commitment to Saskatchewan people remains unchanged—when you think of STC, you will think safe, courteous, reliable… and affordable.



Jim Hadfield,
President and CEO

Statement of Mission

STC provides the highest level of passenger and express service in and for the province.

Vision Statement

STC is and will always be a vital part of the Saskatchewan economy and its social fabric.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- *Honesty in all business transactions, in dealing with our staff, in dealing with our customers and in dealing with our stakeholders.*
- *Dependability, not only in our vehicle operations, but in all facets of the company's work.*
- *Ensuring the safety of our customers and our employees.*
- *Never accepting the status quo as the best possible outcome for our stakeholders; searching for innovative solutions to the problems which arise and taking pride in our accomplishments, while admitting to our mistakes.*
- *Developing a work environment which supports employment equity and offers opportunity for advancement to all employees.*
- *Meeting all targets within our work units and within our corporation.*

Safe Reliable
Courteous ... and Affordable

Management Discussion and Anaylsis

STC has, far and away, the bulk of the bus passenger business in Saskatchewan

Bill Roach, Passenger Services Attendant, Regina, 15 years of service

In this MD&A, STC Management will discuss trends in the bus industry in Canada, and will look at the company's three main components—passenger service, freight operations and maintenance in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

The year 2003 saw the continued decline of the bus passenger industry across Canada, as all scheduled carriers were facing tight finances. In this regard, operations at STC were no exception.

This decline is attributable to an ongoing decrease in bus ridership, estimated to be four per cent annually industry wide, across North America. This was slightly higher than the decline in passenger numbers seen by STC for the year.

The decline in ridership, and thus revenues, was seen in conjunction with ever-increasing costs for over-the-road operations, most noticeably in terms of fuel, insurance and wages.

In the course of the year, Greyhound Canada Transportation Corporation, which is the industry leader in this country, negotiated a new collective agreement with its employees. However, due to the variables within the new contract, it is very difficult to determine what impact this will have on other carriers in Canada. The STC collective agreement ended December 31, 2003.

STC, as a Crown corporation owned by the Government of Saskatchewan, must operate, as required, within public policy guidelines issued by the Government. One such guideline, delivered in 2003, was that the Crown corporations under the control of the Crown Investments Corporation of Saskatchewan were to ensure that their rates were as low as, or lower than, all other Canadian jurisdictions.

Although this has widely been seen as a dictate to the four largest utility Crowns, STC has chosen to operate under this same principle. This will impact any future changes the company will make to its passenger fares.

In 2002, the issue of deregulation of the passenger bus industry in Canada was at the fore, when the Canadian Senate, through its subcommittee on transportation, held public hearings on the question of deregulating the intercity bus business in Canada. It did so at the request of then-Minister of Transport David Collenette, who has been studying the issue of deregulation for the past few years.

The committee heard from bus company operators, consumer groups, academics, industry experts and government agencies, including STC.

At the end of 2002, the Senate committee released its report, containing six recommendations. Those recommendations are:

- Deregulate the bus industry on a "reverse-onus" basis for a five-year trial period;
- Establish a five year, $30 million a year subsidy program to help small independent operators provide service to communities who might lose it due to deregulation;
- Do a re-appraisal of regulations regarding accessibility to buses by those with physical handicaps;
- Ensure that smaller buses and vans used as buses meet the safety requirements of the National Safety Code;
- Examine how the use of bus transportation might be environmentally advantageous, particularly in light of the Kyoto Protocol; and,
- A re-evaluation of the federal government's position that a consensus of concerned jurisdictions is needed in order to make changes to the regulatory environment for the bus industry.

At the time of this writing, more than a year later, there has still been no indication from the Government of Canada what steps, if any, it is prepared to undertake in terms of these recommendations.

In the case of STC, only the first recommendation has any immediate threat to the company's operations.

Deregulating routes on the "reverse onus" basis could have a long-term impact on STC's routes and its ability to continue operating to some service points. Currently, bus companies operate with running rights (essentially exclusivity) on the routes they operate. Under reverse onus deregulation, any competitor could announce its intention to compete on any route—in the STC case, the Regina to Saskatoon corridor, as an example—and then the onus would be on the company which currently holds the running rights to prove to a regulatory board why it would not be in the public interest for it to lose its monopoly.

Most of STC's routes do not operate on a break-even basis, and the ones that do not are subsidized, in part, from the profits made on the other routes. However, if STC were to lose its exclusivity on profitable routes, such as the Regina-Saskatoon corridor, it would see its profits drop and the money available to subsidize other routes would decrease. This, in turn, would seriously impact the company's ability to keep those other routes operating, or require substantially higher subsidies to keep them operating.

STC would have to take a serious look at discontinuing its service on some routes, particularly those in more remote areas of the province.

Despite what actions the federal government might decide to take on this issue, STC has been aware of the possibility of deregulation of the industry for five years now, and has been working to make itself ready for competition, should it come. The company has done this by expenditure controls to ensure it is on the strongest possible footing and by upgrading its already-high standards for company service.

There are other factors which impacted STC's operations in 2003, which will be discussed further in this MDA.

Passenger Services

STC has, far and away, the bulk of the bus passenger business in Saskatchewan.

Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway), and there are a number of small, locally-based carriers, serving only specific areas, which inter-line with STC service at the company's depots.

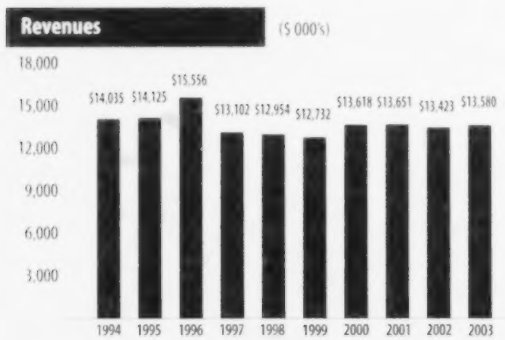
The company runs 28 routes in the province. The viability of those routes varies, as does, to a lesser degree, the equipment used by STC to service them. The smallest unit currently operated by STC is a 15-seat van, and the largest is a 55-seat coach.

In 2003, STC received a capital grant of $1.9 million from its chief stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about $1.3 million was designated for the purchase of new buses and freight trailers. As well, the company received an operating grant of $1.6 million to help subsidize the cost of running unprofitable routes.

In 2003, STC operated more than 3.2 million miles of bus service in the province, providing connections to 275 communities. It carried 258,841 passengers.

The company's cost per mile of carrying passengers was $3.06, and the revenue per mile generated by passengers was $2.01. This represents a per-mile subsidy of $1.05.

In the course of the year, STC added service to one community on a six-month trial basis. This service was provided through one of the company's interline partners. However, the six-month trial period showed there was insufficient demand for the service in that community and it was discontinued. Otherwise, there were no changes made to STC's scheduled service in 2003.



In 2003, STC's revenues from passenger service were $6,408,000, compared to $6,424,000 the previous year. Its operating expenses were $9,761,000, compared to $9,237,000 in 2002.

STC's strengths in the passenger industry are two—its virtual monopoly of operations in a large portion of the province, and its name recognition.

Its major weakness lies in the changing demographics of the province, which results in a shrinking potential marketplace. This is a major contributing factor to the ongoing decline in ridership.

Opportunities for the company in the bus passenger industry are limited, as the market for this service will likely continue to shrink or, at best, be stagnant. However, STC will continue to examine partnerships with other industries and other sources of revenue to try and pick up the shortfall.

As well, the company will undertake an awareness campaign for its services in rural Saskatchewan, in an effort to preserve, and perhaps grow, its client base.

An ongoing threat to the company's passenger operations lies in the province's changing demographics. Continued urbanization, reliance on private automobiles, and development of the highway system will only further erode the company's client base.

A major threat facing the passenger service is the move towards deregulation, discussed earlier in this MD&A.

STC's passenger operations account for 79 full-time and nine part-time, as well as three temporary, in-scope employees.

Parcel Express Services

STC operates its freight business in a fully-competitive environment. It is in competition not only with other bus services, but also with trucking firms and courier services, as well as Canada Post.

In addition to providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers. Issues regarding the provision of this pick up and delivery service are discussed later in this report.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well as passengers, so it makes sense to do so.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.

STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its hauling capacity (and revenue-generating capabilities) with only a minimal effect on expenditures.

Freight operations at STC garnered $6,577,000 in revenues for 2003, compared to $6,498,000 in 2002. Expenditures were $4,207,000, compared to $4,250,000

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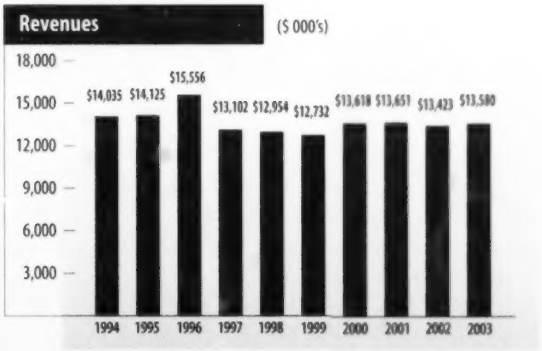

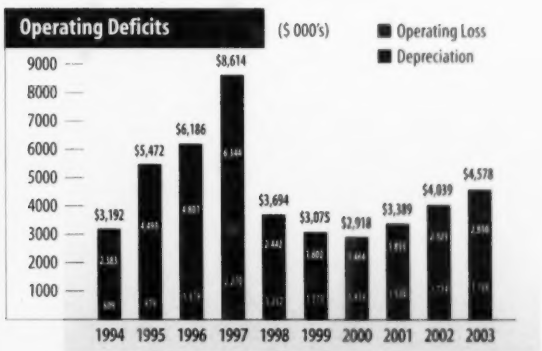

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the previous year. That meant a profit of $2,370,000 compared to $2,248,000 the previous year.

Due to the extremely competitive nature of the freight business, STC does not have a lot of room within its tariff schedule for any significant increases.

STC's greatest strength in the freight business is the synergies it has with the passenger service. That is to say that, since the buses are running on a large network anyway, with room to carry freight, the over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

STC's greatest strength in the freight business is the synergies it has with the passenger service.

Chad Demyen, **Express Services Attendant 1, Regina, 9 years of service**

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which provides weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one pound to 30-pound range, which makes up approximately 80 per cent of its freight business. A lot of this is the result of walk-in, rather than regular, customers.

Its major weakness is that its system of freight tariffs cannot keep pace with increasing costs. STC rates are still somewhat below Western Canadian averages for bus parcel express service. In addition, some firms have been offering deep discounts to attract some major customers away from STC. STC has lost some of these customers, and must now try to win them back with price discounts of its own.

Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any sharp increases could result in a loss of market share.

The main threat to STC's express service is predatory pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs—mostly labour. Another threat, as with the passenger service, is the volatile cost of fuel.

The freight component of the business employs the following in-scope employees: 34 full-time and 21part-time, as well as one temporary.

Maintenance Services

STC operates two service garages in the province, one in Saskatoon and one in Regina. However, in 2003, major maintenance work was all consolidated in the Saskatoon garage. The Regina facility is still capable of minor maintenance and servicing, as well as safety inspections.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC performs maintenance service for a number of other bus operators in the province.

In 2003, maintenance services cost the company $2,230,000, compared to $2,047,000 in 2002. Performing service for other operators brought in $537,000 in revenues, compared to $579,000 in the previous year.

STC is always looking for other ways by which to grow its revenue base.

Shirley Silzer, Clerk, Regina, 22 years of service

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area of strength is the homogenous nature of its fleet, which allows for a much smaller parts inventory.

Its weakness in this area is the need, because of the geographic size of the province, to operate two facilities rather than one. As well, although the age of the fleet is declining steadily, it is still a relatively older fleet and, as such, requires greater maintenance and service.

Threats and opportunities for the maintenance operation are both related to its ability to contract its service to private operators. The threat is, because of limited staff, STC will not be able to do as much business in this area as in past years. The opportunity is that it will still be able to attract all the business it can handle with its reduced staff.

The maintenance operation has 25 full-time and eight part-time as well as two temporary in-scope staff.

Other Issues

Other Revenues

STC, because of the nature of the passenger bus industry in North America, has limited room for growth in its primary lines of business—passenger and express services. So, the company is always looking for other ways by which to grow its revenue base.

One of these options is providing maintenance, cleaning and storage services to other bus companies. While this has been a lucrative venture for the company, limitations in staff and facility availability makes it a finite area of endeavor.

One area where there has been noticeable growth in "other" revenues is with the operation of charters. STC does not compete with privately-owned companies for charter business. It does not currently advertise the service, and it has neither coaches nor employees designated for charters.

However, if somebody approaches the company with the offer of charter work, and if there is a coach and driver available, the company will take the contract.

As a result of word-of-mouth promotion by satisfied clients, STC has seen a steady growth in its charter business. In 2003, the company fulfilled 222 charters, bringing in revenues of $274,000, compared to revenues of $201,000 the previous year.

The company also leases out excess space, primarily at the Saskatoon garage and Saskatoon depot. In 2003, this activity accounted for revenues of $98,000.

The company is also in the field of bus advertising, which began in 1999. In 2003, revenues raised through bus advertising amounted to $78,000, compared to $45,000 the previous year.

In 2001, STC installed vending devices, specifically automatic banking machines, in its depots as another method of gaining revenues. The revenues from this source amounted to $12,000, compared to $9,000 the previous year.

Regina Facilities

In 2002, the company received the results of a facility audit conducted by the Canada Human Rights Commission as part of an overall audit of the company's compliance with the Employment Equity Act. This audit found a number of significant deficiencies with the company's passenger depot in Regina, including such things as a lack of elevator, and wheelchair accessible washrooms.

In order to bring the building up to the standards of the Act, significant changes are required.

At the same time, the age of the company's Regina garage facility was starting to have a negative impact on the company's insurance rates and coverage.

Because of these two factors, it was determined in 2003 that STC would have to extensively renovate, or replace, its Regina facilities. An engineering study was undertaken to determine the actions and costs involved in a major renovation of the facilities. At the same time, an architectural study into the cost of a new structure, plus a search for a possible location, were undertaken. STC will be taking a proposal and recommendation before the board of its holding company, CIC, in the third or fourth quarter of 2004.

Pick Up and Delivery Service

As noted earlier in this MD&A, STC provides a parcel pick up and delivery service in Regina, Saskatoon and Prince Albert. This service has been performed since 1995 by independent contractors who have entered into a Standard Business Agreement with STC.

In 2002, the Canada Customs and Revenue Agency ruled that these operators, who had been classed as dependent contractors would have to be classified as employees of the company, which meant they would fall under the Employment Insurance and Canada Pension Plan legislation. They became liable for such contributions, as did the company. In addition, the company was levied $107,000 for back payment of EI and CPP premium payments on behalf of the company and the nine individuals involved.

This resulted in a greater cost to the company to operate the service, and higher operating costs for the contractors. As a result, both sides felt there was a need to reopen the Standard Business Agreement, albeit for different reasons. Negotiations between the company and the union representing the operators carried on throughout 2003, and there is some optimism an agreement can be reached early in 2004.

Environmental Impact

As a transportation company, STC's primary impact on the environment can been seen in any of three places – the consumption of fossil fuels, the storage of such fuels, and the handling of hazardous materials.

STC has in place an approved dangerous goods handling policy and its fuel storage is up to code.

In terms of fuel consumption, the company has been rebuilding its fleet over the past six years with newer, more fuel efficient coaches. As well, in 2004, STC will be studying the availability of, and compatibility with equipment of alternative fuel sources.

In 2003, STC was in compliance with all relevant environmental statutes and regulations.

Financial Status

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2003 were $1.9 million, compared to $2.4 million in the previous year. About $1.3 million of the capital grant received in 2003 was allocated to purchase fleet assets. It is anticipated that STC will require $1.9 million in capital grants in the year 2004.

In 2003, STC received $1.6 million in operating grants from CIC to fund part of its operating losses with respect to passenger operations. The remaining funds needed to operate STC's passenger services are generated internally from the express service operations.

The operating grant for 2003 was less than previous years as STC had approximately $600,000 in approved but unspent grant money. This $600,000, along with the $1.6 million in operating grants, was applied against the company's operating shortfall for the year.

STC anticipates that it will require $3.4 million in the year 2004, in operating grants.

The Finance department has 14 full-time in-scope employees and no part-time in-scope employees.

STC continues to incur yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2003, and does not expect to pay one in 2004.

Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represents the interests of the stakeholders, the people of Saskatchewan. A Member of Executive Council has responsibility directly to the public for the operations of STC and sits on the CIC Board of Directors.

CIC, in consultation with the Crowns, has developed a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but is also as transparent as it can be in terms of where it is and where it is going as a corporation.

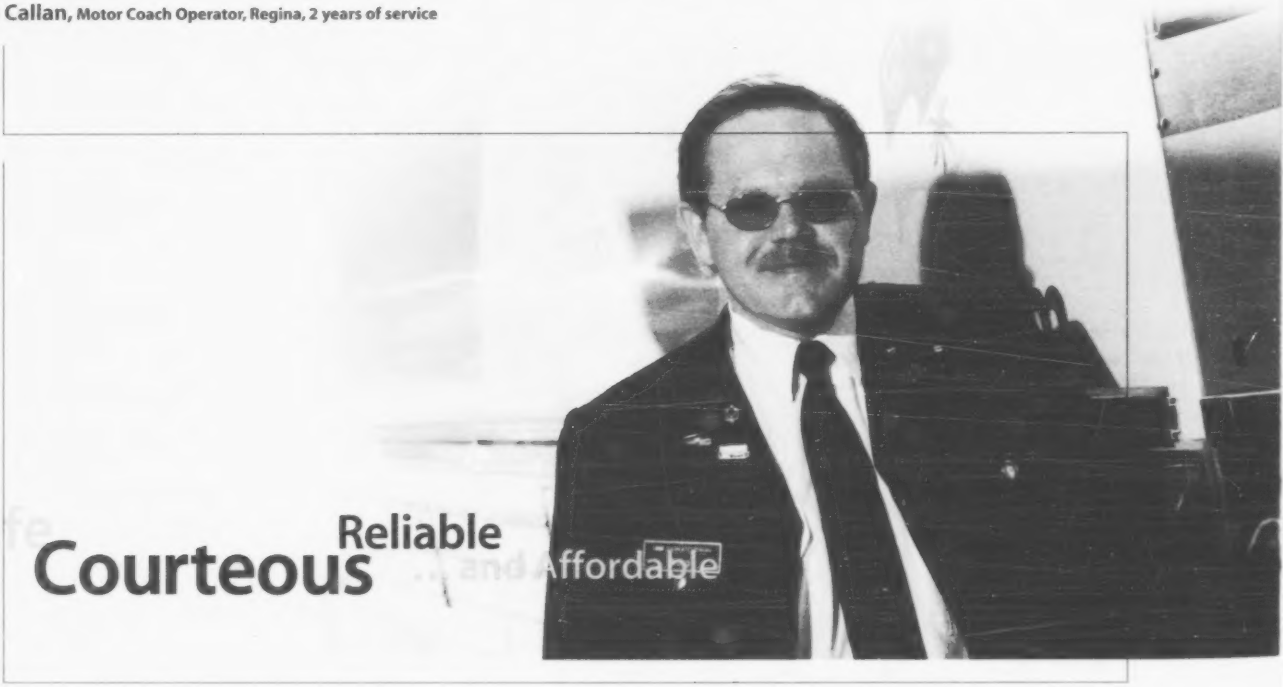
The strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. Customer:

- To exceed customer expectations for products and services.

STC provides necessary services at the least cost to consumers

Doug Callan, **Motor Coach Operator, Regina, 2 years of service**



2. Financial Health:

- To help position the entire Crown sector to prosper.
- To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.

3. Mandate and Role:

- To incorporate the Crown sector's mission into each corporation's mandate and role.
- To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.

4. Public Purpose:

- To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
- To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.

5. Human Resources:

- To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.

Financial Integrity—The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, a primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders—the people of Saskatchewan—are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown corporations, this is found in the dividend paid to the holding company, CIC, by the various Crowns.

STC is an obvious exception to this. As the company does not make a profit, but rather, receives a subsidy, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are, therefore, different from most other Crowns. It is evaluated on the amount of subsidy it receives *(Is this kept as low as possible?)* and by the value it gets for the money injected into its operation *(Are taxpayers getting their money's worth for the subsidy they pay? Is STC spending the money prudently?)*.

Public Policy—The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

In essence, then, the corporation must not allow bottom line considerations to outweigh these other important aspects.

Each corporation, depending on such factors as its line of business and its competitive outlook, will take a different approach to attaining public policy goals.

STC, because of its financial constraints, is more challenged than other Crowns in terms of meeting its public policy purpose, but must comply with the overall direction nonetheless.

Integration

Integration of these two important aspects of a Crown's business is through the **Performance Management Document,** a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The heart and soul of the Performance Management Document is the ***Balanced Scorecard,*** a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

STC's Balanced Scorecard for 2003, including year-end results, is set out below:

We Meet the Needs of our Customers

Objective	Measure	2003 Target	Final
Our customers are satisfied with the service they receive	Survey results	82% good or excellent rating	86% good or excellent rating
We ensure our customers enjoy safe service	Accident-free miles	85%	94%
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better	89%
Our staff and partners are trained to provide good quality customer service	"Saskatchewan Best" or other customer service training – number of staff trained:	50	15
	Agency meetings - number of agents met with:	40	42
Our routes serve a significant portion of rural Saskatchewan	Miles traveled	3.1 M	3.2 M
	Communities served	275	275
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – percentage of fleet:	17%	17%

We are a Good Corporate Citizen

Objective	Measure	2003 Target	Final
We support development of the Saskatchewan economy, particularly rural economy	Number of Rural agents	200	207
	Buy Saskatchewan – percentage of expenditures:	Develop technology for tracking payments to suppliers	completed
We support creating job and career opportunities for young people	Help develop career training opportunities in the bus passenger industry – number of opportunities pursued:	Examine opportunities with Aboriginal & educational institutes	4
	Hire summer students – number of students hired:	3	3
We work to protect our environment	Improvements in fuel efficiency – percentage improvement:	1.5%	(1.52%)
	Newer, more fuel efficient coaches – average age in years:	6.0 - 6.5	6.3
We support development of the tourism industry in the province	Agreements/partner-ships with provincial attractions – number of agreements:	Initial contacts and research	In progress
We support development of e-commerce in the province	Web page – number of hits:	15000	36,620
	Point of Sales/Billing technology	Implement new invoicing system, including electronic presentment through website.	Installation and training continues

We are a Fiscally Responsible Company

Objective	Measure	2003 Target	Final
We live within the grants given us by our stakeholders	Operating grant	$1.6M	$1.6M
	Capital grant	$1.9M	$1.9M
We keep our operating costs as low as possible	Subsidy per mile	$0.83	$1.05
We look for non-traditional forms of revenue	Charter revenues – percentage increase:	5%	39.5%
	Other revenues – percentage increase:	3%	7.1%
We ensure our equipment is correct for our needs	Load factor	74%	74%

We are a High-Quality Employer

Objective	Measure	2003 Target	Final
We support development of a representative workforce in the province	Percentage of new hires from designated groups	40%	46% of permanent;
	Percentage: (ongoing until a representative workforce is achieved)		29% of temporary
			41% aggregate
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Negotiate implement-ation of new pay scales	Union/ management negotiations
We work to promote a safe and satisfactory workplace	Employee satisfaction surveys	Conduct employee survey	Survey conducted
	Workplace safety records – decrease in lost time accidents:	5%	20 claims 5% increase
We believe in career enhancing training for our employees	Safety training – number of staff trained	25	138 total
	"Saskatchewan Best" or other customer service training – number of staff trained:	50	15

We are Accountable and Transparent

Objective	Measure	2003 Target	Final
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed	Exceeded standards
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only	Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e.: Provincial Auditor)	No more than 1 per year	1
We take seriously what our customers say	Response time on customer complaints/ inquiries and Ministerial referrals	5 days	2.0 days
We take seriously what the community says	Interest group meetings – number per year:	4	3

Explanation of Significant Variances:

1. Subsidy per mile is high because the ridership in the first half has been below normal.
2. Other income is significantly above budget due to leasing revenues from new restaurants.
3. SaskBest training numbers down as a grievance moved delivery of the training to Collective Agreement negotiations.
4. Fuel usage up due to late delivery of new coaches.
5. Lost time accidents – new target with no benchmarks established.

STC's Balanced Scorecard for 2004

The Balanced Scorecard is an evolving document. The **2003 Balanced Scorecard** presented by STC was significantly redrawn to present the corporation's goals in a fashion which better reflects the overall aims of the corporation and its day-to-day activities, while keeping the needs of the shareholder paramount. **The Balanced Scorecard for 2004** improves on, but does not materially change, the 2003 version. **The Balanced Scorecard for 2004** is:

We Meet the Needs of our Customers

Objective	Measure	2004
Our customers are satisfied with the service they receive	Survey results	83% good or excellent rating
We ensure our customers enjoy a safe environment	At-fault injuries caused	0
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better
	Compared to Western Canadian industry	Below average
Our staff and partners are trained to provide good quality customer service	Customer service training – number of staff trained:	50
	Increase in customer satisfaction – survey	1%
	Agency meetings - number of agents met with:	40
Our routes serve a significant portion of rural Saskatchewan	Miles traveled	3.1 M
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – percentage of fleet:	21.4%

We are a Good Corporate Citizen

Objective	Measure	2004
We support development of the Saskatchewan economy, particularly rural economy	Minimum number of agents	195
	Minimum number of Communities served	275
	Buy Saskatchewan – percentage of expenditures:	70%
We support creating job and career opportunities for young people	Help develop career training opportunities in the bus passenger industry – number of opportunities pursued:	Negotiate understanding With union as to how youth employment program will be administrated and develop program option list
We work to protect our environment	Develop "green" fuel policy	Research alternatives and equipment needs
	Newer, more fuel efficient coaches – average age in years:	6.0 - 6.5
We support development of the tourism industry in the province	Agreements/partner-ships with provincial attractions – number of agreements:	1-2
We support development of e-commerce in the province	Web page – number of hits:	30000
	Point of Sales/Billing technology	Implement new invoicing system, including electronic presentment through website.

We are a Fiscally Responsible Company

Objective	Measure	2004
We live within the grants given us by our stakeholders	Operating grant	$3.4M
	Capital grant	$1.9M
We keep our operating costs as low as possible	Subsidy per mile	$1.06
We look for non-traditional forms of revenue	Charter revenues – percentage increase:	5%
	Other revenues – percentage increase	2%
We ensure our equipment is right-sized by route	Average peak passenger volume per route as compared to the size of equipment used	74%

We are a High-Quality Employer

Objective	Measure	2004
We support development of a representative workforce in the province	Percentage of new hires from designated groups	40%
	Percentage: (ongoing until a representative workforce is achieved)	
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Collective Bargaining to include scales
We work to promote a safe and satisfactory workplace	Employee satisfaction surveys	15% growth in employee satisfaction
	Workplace safety records – decrease in lost time accidents:	5%
We believe in career enhancing training for our employees	Safety training – number of staff trained	35
	Customer service training – number of staff trained:	50

We are Accountable and Transparent

Objective	Measure	2004
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e.: Provincial Auditor)	No more than 1 per year
We take seriously what our customers say	Response time on customer complaints/inquiries and Ministerial referrals	5 days
We take seriously what the community says	Interest group meetings – number per year:	4

Passages

In the year 2003, the STC family got smaller. Some of these passages were a time of celebration, and some were a time of mourning. But all took a little piece of the company with them.

Retirees:

Bob Smith, Motor Coach Operator, Regina, retired Jan 31/03 with 27 years of service.

Ed Bannerman, ESA 1, Prince Albert, retired Jan 31/03 with 11 years of service.

Ed Langille, Mechanic 2, Saskatoon, retired Jan 31/03 with 28 years of service.

Dianne Hennig, Senior Accounting Clerk, Regina, retired May 15/03 with 23 years of service.

Pat Pander, Motor Coach Operator, Regina, retired May 1/03 with 28 years of service.

Keith Wells, Motor Coach Operator, Saskatoon, retired May 17/03 with 25 years of service.

Dan Frey, Mechanic 1, Saskatoon, retired May 31/03 with 20 years of service

Skip Topping, Customer Services Coordinator, Prince Albert, retired August 11/03 with 30 years of service

Winston Henderson, Motor Coach Operator, Regina, retired Dec 13/03 with 39 years of service.

Doreen Gudbranson, ESA 2, Regina, retired Dec 31/03 with 12 years of service.

In Memoriam:

None

Corporate Management

Saskatchewan Transportation Company
Head Office:

2041 Hamilton Street
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347

www.stcbus.com

Senior Management

President and CEO	**Jim Hadfield**
Senior Director Finance and Administration	**Shawn Grice**
Senior Director Customer Services and Operations	**Bob Strang**
Director Human Resources and Labour Relations	**Ingrid Reid**
Director Communications and Strategic Planning	**John Millar**
Director Information Systems	**Brad Dewald**
Manager Business Development	**Dean Madsen**
Manager Operations (North)	**Harold Matthies**
Manager Operations (South)	**Debra Anderson**
Manager Maintenance	**Carl Clark**

If you would like additional copies of this report, please contact Janet Abells at (306) 787-3412, or e-mail: jabells@stcbus.com.

This document can be viewed at the STC website: www.stcbus.com

2003 Financial Statements

Management's Responsibility for Financial Reporting

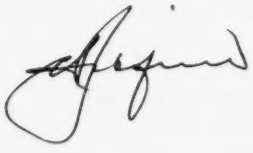
Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

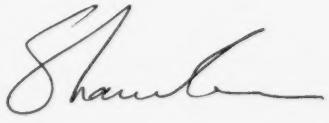
Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2003 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,



Jim Hadfield
President & CEO



Shawn Grice
Senior Director
Finance & Administration

MEYERS NORRIS PENNY LLP

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2003 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Transportation Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan

Meyers Norris Penny LLP

February 6, 2004

Chartered Accountants

an independent member of BAKER TILLY INTERNATIONAL

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS
ROYAL BANK BUILDING, SUITE 900, 2010 - 11TH AVE., REGINA, SK S4P 0J3
1-877-500-0780 PH. (306) 790-7900 FAX (306) 790-7990 www.mnp.ca

Statement of Financial Position

As at December 31

	2003	2002
	(Thousands of Dollars)	
ASSETS		
Current		
Cash	$ 882	$ 2,286
Accounts receivable	1,315	1,478
Inventories	322	314
Prepaid expenses	130	158
	2,649	4,236
Property, plant and equipment *[note 5]*	15,629	15,086
	$ 18,278	$ 19,322
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Demand operating loan *[note 6]*	$ 300	$ –
Accounts payable and accrued liabilities	2,003	2,269
	2,303	2,269
Deferred capital grant *[note 7]*	7,573	6,571
Province of Saskatchewan's Equity		
Retained earnings	8,402	10,482
	$ 18,278	$ 19,322

See accompanying notes

On behalf of the Board

H A Kmiec — *Director*

Janet Folk — *Director*

Statement of Operations and Retained Earnings

Year ended December 31

	2003	2002
	(Thousands of Dollars)	
REVENUE		
Express services	$ 6,577	$ 6,498
Passenger services	6,408	6,424
Other revenues	597	559
Loss on disposal of property, plant and equipment	(2)	(58)
	13,580	13,423
EXPENSES		
Operating	13,781	13,255
Administration	2,649	2,493
Amortization	1,728	1,714
	18,158	17,462
Loss before the following	(4,578)	(4,039)
Write-down of fleet assets	–	(74)
Operating grant [note 8]	1,600	2,400
Capital grant [note 7]	898	783
Net loss	(2,080)	(930)
Retained earnings, beginning of year	10,482	11,412
Retained earnings, end of year	$ 8,402	$ 10,482

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2003	2002
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net loss	$ (2,080)	$ (930)
Items not involving cash:		
Amortization	1,728	1,714
Loss on disposal of property, plant and equipment	2	58
Recognition of capital grant	(898)	(783)
Write-down of fleet assets	–	74
Net change in non-cash working capital [note 10]	(83)	235
Cash (used in) provided by operating activities	(1,331)	368
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,297)	(1,841)
Proceeds on disposal of property, plant and equipment	24	133
Cash used in investing activities	(2,273)	(1,708)
FINANCING ACTIVITIES		
Capital grant received	1,900	2,400
Demand loan proceeds	300	–
Cash provided by financing activities	2,200	2,400
(Decrease) increase in cash	(1,404)	1,060
Cash, beginning of year	2,286	1,226
Cash, end of year	$ 882	$ 2,286

See accompanying notes

Notes to Financial Statements

December 31, 2003

1. STATUS OF THE COMPANY

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under The Crown Corporations Act, 1993.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

2. OPERATIONS AND FINANCING

In 2000, STC received cabinet direction with regard to its mandate. Under that direction, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. STC will ensure that its commitment to servicing the province is kept uppermost in all of its planning even though the Company has been given flexibility to adjust service delivery levels to keep the Company strong.

STC continues to be dependant upon CIC for its funding as a result of the non-commercial routes operated by the Company. By way of Orders in Council #901/2002 and #902/2002, the Company was authorized to obtain grant funding up to $3,500 thousand [2002 - $4,800 thousand] in total for both capital and operating requirements. During the year, the Company requested and received $3,500 thousand of the $3,500 thousand authorized [2002 - $4,800 thousand and $4,800 thousand respectively].

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs, mechanical repairs and preventative maintenance, are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue

Capital grants are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Notes to Financial Statements

December 31, 2003

Amortization

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	5 to 15 years
Other equipment	3 to 10 years

Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of Property, Plant and Equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

4. FINANCIAL INSTRUMENTS

The Company as part of its operations carries a number of financial instruments which includes cash, accounts receivable, demand operating loan and accounts payable and accrued liabilities. The carrying amount of the Company's financial instruments approximates their fair value due to the short-term maturities of these items.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
		(Thousands of Dollars)		
Land	$ 1,902	$ –	$ 1,902	$ 1,902
Buildings	10,456	5,612	4,844	5,060
Vehicles	13,862	5,926	7,936	6,996
Other Equipment	5,169	4,222	947	1,128
	$ 31,389	**$ 15,760**	**$ 15,629**	**$ 15,086**

6. DEMAND OPERATING LOAN

The demand operating loan is unsecured, repayable on demand, and bears interest at Prime.

Notes to Financial Statements

December 31, 2003

7. CAPITAL GRANT

Order in Council #901/2002 authorizes the Company to obtain grant funding up to $1,900 thousand for capital requirements in 2003. During the year, the Company obtained $1,900 thousand [2002 - $2,400 thousand] from CIC.

Deferred Capital Grant consists of the following:

	2003	2002
	(Thousands of Dollars)	
Deferred capital grant, beginning of year	$ 6,571	$ 4,954
Capital grant received	1,900	2,400
Capital grant revenue recognized	(898)	(783)
	$ 7,573	**$ 6,571**

Contained in STC's cash balance at year end are capital grant funds of approximately $234 thousand reserved for payment of capital accounts payable and future capital purchases.

8. OPERATING GRANT

Order in Council #902/2002 authorizes the Company to obtain grant funding up to $1,600 thousand for operating requirements in 2003. During the year, the Company obtained $1,600 thousand [2002 - $2,400 thousand] from CIC.

9. PENSION PLANS

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. The Company's contributions to this plan which were expensed during 2003 were $59 thousand [2002 - $78 thousand]. The other is the Capital Pension Plan which is a defined contribution plan administered by CIC. The Company's contributions to this plan which were expensed in 2003 were $439 thousand [2002 - $419 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

Notes to Financial Statements

December 31, 2003

10. NET CHANGE IN NON-CASH WORKING CAPITAL

	2003	2002
	(Thousands of Dollars)	
Decrease (increase) in:		
Accounts receivable	$ 163	$ 153
Inventories	(8)	–
Prepaid expenses	28	(10)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(266)	92
	$ (83)	**$ 235**

11. RELATED PARTY TRANSACTIONS

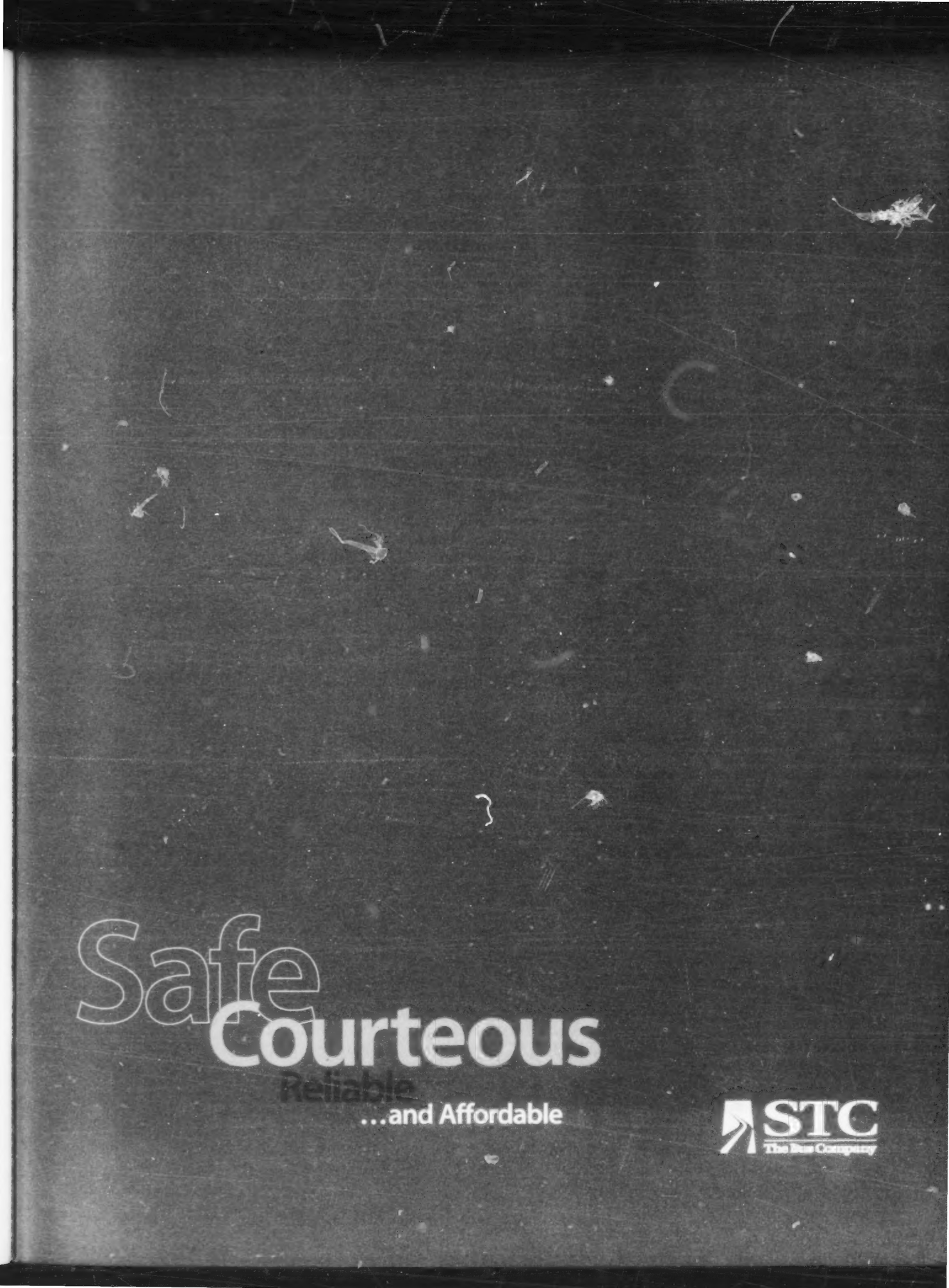
Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2003	2002
	(Thousands of Dollars)	
Accounts receivable	$ 116	$ 172
Accounts payable	178	171
Express revenues	519	498
Other transportation services revenues	386	429
Operating and administration expenses	1,450	1,427

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.


Safe
Courteous
Reliable
...and Affordable
STC
The Bus Company

STC
The Bus Company